

Message Text

PAGE 01 STATE 134424

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TO AMCONSUL BREMEN

C O N F I D E N T I A L STATE 134424

LIMDIS

FOLLOWING SENT ACTION STATE FROM SAN JOSE JULY 7, REPEATED
TO YOU FOR R.C. SCISSORS.

QUOTE:

E.O. 11652: N/A
TAGS: ELAB, EAGR, PINT, CS
SUBJECT: GOCR'S PLANS TO SUBSIDIZE INDEPENDENT BANANA
PRODUCERS

REF: CONFIDENTIAL SAN JOSE 2385

SUMMARY: FINANCE MINISTER ALPIZAR CALLED IN EMBOFF TO EXPLAIN
PLAN TO "SUBSIDIZE TEMPORARILY" THE INDEPENDENT BANANA
PRODUCERS VIA THE EXCHANGE MECHANISM. UNDER HIS PLAN,
THE INDEPENDENTS WOULD BE GIVEN A MORE FAVORABLE EX-
CHANGE SURRENDER RATE THAN THE LARGE COMPANIES. THIS
PREFERENTIAL RATE WOULD LAST UNTIL THE EXCHANGE RATE
IS REUNIFIED, SUPPOSEDLY EARLY NEXT YEAR. ALPIZAR
SAID THIS COURSE IS NECESSARY BECAUSE OF THE NEAR-
BANKRUPTCY OF THE INDEPENDENTS. HE RECOGNIZES HE MUST
FIRST HAVE UNITED BRAND'S AGREEMENT TO WAIVE ITS "MOST
FAVORED COMPANY" CLAUSE IN THE GOCR'S CONTRACT WITH IT.
ALPIZAR FEELS THAT DISCRIMINATION IN PLAN IS MORE AP-
CONFIDENTIAL

PAGE 02 STATE 134424

PARENT THAN REAL BECAUSE OF INTEGRATED NATURE OF LARGE
COMPANIES SUCH AS UNITED, STANDARD AND DEL MONTE. AL-
TERNATIVE TO HIS PLAN WOULD BE SOME OTHER FORM OF SUB-
SIDIZATION, SINCE HE POINTED OUT, GOCR CANNOT LET IN-

DEPENDENTS GO UNDER. ALPIZAR EXPECTS CENTRAL BANK APPROVAL OF SCHEME JULY 9. HE STRESSED CONFIDENTIAL NATURE OF BRIEFING. ACTION REQUESTED: EMBASSY WOULD APPRECIATE DEPARTMENT'S VIEWS OF PROPOSAL, WITH PARTICULAR REGARD TO WHETHER ANY U.S. RETALIATORY LEGISLATION LIKELY BE TRIGGERED. IN VIEW SHORT FUSE, WE NEED REACTION MONDAY MORNING IF DEPARTMENT WANTS US TO GET BACK TO ALPIZAR BEFORE CENTRAL BANK MEETING. PLEASE RESPECT ALPIZAR'S DESIRE TO TREAT BRIEFWNG AS CONFIDENTIAL. END SUMMARY.

1. AT JULY 4TH RECEPTION, FINANCE MINISTER ALPIZAR REQUESTED THAT EMBOFF CALL JULY 6 FOR INFORMAL AND CONFIDENTIAL DISCUSSION OF SERIOUS PROBLEM FACING INDEPENDENT BANANA PRODUCERS AND GOCR PROPOSAL FOR GIVING THEM RELIEF. IN CONVERSATION THAT FOLLOWED, ALPIZAR ANALYZED IN DETAIL PROBLEM AND GOCR PROPOSAL FOR "TEMPORARY SUBSIDIZATION" VIA A PREFERENTIAL EXCHANGE SURRENDER RATE FOR THIS GROUP OF PRODUCERS. ALPIZAR'S PRESENTATION SUMMARIZED AS FOLLOWS:

2. HE SAID INDEPENDENTS CONSIST OF 48 PRODUCERS WHO SELL TO TWO U.S. FIRMS, STANDARD FRUIT AND DEL MONTE, AND ONE EUROPEAN FIRM. (UNITED BRANDS IS NOT INVOLVED.) THE INDEPENDENTS FARM ABOUT 12,000 HECTARES, PRODUCING, ACCORDING TO ALPIZAR, ABOUT 30 PERCENT OF TOTAL PRODUCTION (WE THINK THIS IS HIGH). SOME 4,000 LABORERS ARE EMPLOYED, THUS THE INDEPENDENTS REPRESENT LIVELIHOOD FOR ABOUT 20,000 PEOPLE WHEN FAMILIES ARE INCLUDED.

3. THE INDEPENDENTS ARE IN DIFFICULTIES FOR A VARIETY OF REASONS. THE CRITICAL POINT RIGHT NOW, HOWEVER, IS THE SQUEEZE BETWEEN RISING DOMESTIC COSTS AND FIXED CONTRACT PRICES FOR SALE OF THEIR PRODUCT TO THE BIG COMPANIES (BETWEEN \$1.25 AND \$1.50 PER BOX, IN TEN-YEAR CONTRACTS). BASIC PROBLEM, HE ADMITTED, GOES DEEPER, INCLUDING POOR MANAGEMENT, SOME MARGINAL LANDS, AND ABOVE ALL, THE HUGE DEBT ACCUMULATED (ABOUT COLONES 71 MILLION) BY GROUP AS A WHOLE. ALPIZAR RECOGNIZES THAT RELIEF CANNOT REALISTICALLY BE EXPECTED BY A SUBSTANTIAL INCREASE IN PER BOX PRICE SINCE THE BIG COMPANIES THEMSELEVES ARE LIMITED BY WORLD MARKET CONDITIONS (HE ALSO RECOGNIZES THAT STANDARD OFFERS SUBSTANTIAL INDIRECT BENEFITS VIA TECHNICAL ASSISTANCE AND PACKAGING HELP). SO SOLUTION LIES IN SOME FORM OF DOMESTIC SUBSIDY.

PAGE 03 STATE 134424

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4. THE POINT, HOWEVER, IS NOT HOW THE INDEPENDENTS GOT WHERE THEY ARE, BUT WHAT MUST BE DONE NOW. ALPIZAR SAID THE GOCR CANNOT ALLOW THIS GROUP TO COLLAPSE FOR THREE BASIC REASONS:

(A) SOCIAL IMPLICATIONS -- UNEMPLOYMENT

(B) IMPLICATIONS FOR BANKING SYSTEM; SYSTEM

WOULD BE FORCED TO REPOSSESS LAND IN CASE OF DEFAULT,
BUT REQUIRED TO SELL BY LAW WITHIN TWO YEARS; LAND
WOULD PROBABLY GO INTO CATTLE, WHICH IS NOT LABOR IN-
TENTIVE.

(C) LOSS OF FOREIGN EXCHANGE EARNINGS.

5. ALPIZAR SAID BEST SOLUTION ALL AROUND APPEARED TO BE RELIEF THROUGH THE EXCHANGE MECHANISM. UNDER COSTA RICA'S SPLIT EXCHANGE SYSTEM, ALL BANANA PRODUCERS MUST SURRENDER FOREIGN EXCHANGE AT THE OFFICIAL RATE OF COLONES 6.62 (RATHER THAN THE FREE MARKET RATE OF COLONES 8.54). THE PLAN WOULD BE TO GIVE THE INDEPENDENTS A SPECIAL RATE SOME POINTS ABOVE THE OFFICIAL RATE, BUT CERTAINLY NO HIGHER THAN THE COLONES 7.62, I.E., 100 POINTS ABOVE. THE LARGE BANANA COMPANIES WOULD CONTINUE TO SURRENDER THEIR EXCHANGE AT THE OFFICIAL RATE IN ORDER TO AVOID EXCESSIVE EXPANSION OF LIQUIDITY.

6. ALPIZAR SAID THAT THE IMPLIED DISCRIMINATION WAS, IN FACT, NOT REAL SINCE (A) THE LARGE COMPANIES ARE BASICALLY DIFFERENT FROM THE INDEPENDENTS IN THAT ALL ARE ALSO MARKETING ORGANIZATIONS AND (SOME) ORGANIZED VERTICALLY, FROM PLANTATION THROUGH WHOLESALER (UNITED OPERATES A PLANTATION ON THE PACIFIC COAST; STANDARD HAS ITS OWN PLANTATION ON THE ATLANTIC BUT ALSO BUYS FROM INDEPENDENTS); AND (B) WITHIN THE INDEPENDENT

CONFIDENTIAL

PAGE 04 STATE 134424

GROUP, THERE WOULD NOT BE DISCRIMINATION, I.E., ALL INDEPENDENT PRODUCERS, REGARDLESS OF NATIONALITY (THERE WOULD BE AT LEAST ONE AMERICAN UNDER THESE CONDITIONS) WOULD BENEFIT.

7. ALPIZAR EMPHASIZED THAT GOCR COULD NOT REPEAT NOT IMPOSE THE EXCHANGE PREFERENCE SYSTEM WITHOUT THE CONCURRENCE OF UNITED BRANDS. THIS IS SO, HE SAID, BECAUSE CONTRACTUAL ARRANGEMENTS BETWEEN THE GOCR AND UNITED INCLUDE A "MOST FAVORED COMPANY" CLAUSE. THIS CONTRACT, WHICH HAS ENDURED WITH NUMEROUS AMENDMENTS SINCE THE LAST CENTURY, IS THE DE FACTO BASIC DOCUMENT FOR THE OPERATION OF ALL THE BANANA COMPANIES, BUT SIMILARLY, THE GOCR IS OBLIGATED TO EXTEND TO UNITED ANY PRIVILEGE IT GIVES ANY OTHER COMPANY. THUS, ALPIZAR RECOGNIZES, HIS PROPOSAL CANNOT BE PUT INTO EFFECT WITHOUT UNITED CONCURRENCE EXCEPT BY VIOLATION OF CONTRACT BY GOCR.

8. ALPIZAR IMPLIED THAT HE HAS NOT YET DISCUSSED THE PROPOSAL WITH UNITED, BUT HE DID DISCUSS THE IDEA IN GENERAL TERMS WITH THE OTHERS ABOUT TWO WEEKS AGO.

HE SAID AFTER INITIAL HESITATION, ALL THE OTHERS AGREED
THE IDEA WAS WORKABLE(A COSTA RICAN DEL MONTE LAWYER,
HOWEVER, LATER TOLD ALPIZAR HIS MANAGER HAD MISTAKENLY
AGREED, AND THAT DEL MONTE WAS SURE TO OPPOSE.)

9. WITH REGARD TO UNITED'S CONCURRENCE,ALPIZAR FELT
THAT THEY WOULD AGREE SINCE THEY WOULD CERTAINLY RE-
COGNIZE THE SORT OF DILEMMA THE GOCR FACED. HE NOTED
THAT HE SERIOUSLY DESIRED TO AVOID A CONFRONTATION
SITUATION WITH UNITED, WHICH WOULD ONLY TARNISH UNITED'S
IMAGE HERE AND COULD HURT EVERYONE IN THE END. IF
UNITED REJECTED THIS IDEA, THE GOCR STILL COULD NOT
LET THE INDEPENDENTS FAIL, SO OTHER LESS DESIREABLE
MEANS (FROM THE GOVR'S VIEWPOINT) TO SUBSIDIZE THE IN-
DEPENDENTS WOULD BE FOUND WHICH DID NOT DIRECTLY CONFLICT
WITH THE CONTRACT. (WHEN PRESSED ON THIS POINT, ALPIZAR
REFERRED VAGUELY TO THE DEBT BURDEN, POINTING OUT THE
ORIGINAL LOANS HAD ALREADY BEEN EXTENDED FROM 5 TO 20
YEARS, WITH THE INTEREST RATE REDUCED FROM 8 TO 4 PER-
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PAGE 05 STATE 134424

CENT.)

10. EMBOFF EXPRESSED SYMPATHY FOR THE PLIGHT OF THE IN-
DEPENDENTS, BUT DID NOT COMMENT ON THE MERITS OF THE
PROPOSAL, BEYOND NOTING THAT (A) ANY SYSTEM OF EMERGENCY
RELIEF SHOULD BE BASED UPON A LONG-TERM PLAN FOR COR-
RECTING BASIC DISECONOMIES; (B) THE SUBSTANCE OF THE
CONVERSATION WOULD BE PASSED TO THE DEPARTMENT ON A FYI
ONLY BASIS, WITH NO APPROACH TO UNITED RECOMMENDED;
(C) CONCURRENCE BY UNITED TO THE PLAN WOULD SEEM TO BE
ESSENTIAL IN VIEW OF CONTRACTUAL OBLIGATIONS; AND (D)
WITH OR WITHOUT UNITED'S CONCURRENCE, THE EMBASSY MAY
AT A LATER DATE BE INSTRUCTED TO PROTEST ON GROUNDS OF
PRINCIPLE (IT WAS MADE CLEAR THAT JUDGMENT ON THIS
POINT WAS BEYOND THE EMBOFF'S COMPETENCE; ALPIZAR WAS
GENTLY REMINDED OF THE FOREIGN TRADEMARKS DISCRIMINA-
TION CASE -- SAN JOSE 0986).

11. COMMENT: ALPIZAR'S PREFERENCE FOR AN EXCHNAGE
RATE SUBSIDY SEEMS TO STEM FROM THE FACT THAT THIS IS
THE EASIEST WAY (IT DOES NOT REQUIRE ASSEMBLY APPROVAL)
AND ONE THAT DISGUISES THE COST TO THE ECONOMY. WE
THINK A BETTER METHOD-- PERHAPS DIRECT, DECLINING SUB-
SIDIZATION -- COULD BE DEVISED. HOWEVER, THE POINT IS
THAT ALTHOUGH THE GOCR'S THINKING ABOUT THIS PROBLEM
PROBABLY DOES NOT EXTEND BEYOND ELECTIONS NEXT FEBRUARY,
THE LONG-TERM PROGRAM IS NO LESS REAL. PRESSURE FROM
THE INDEPENDENTS IS GROWING, AND RECENTLY, THERE HAS
BEEN INCREASING TALK OF SOME SORT OF AN ALLIANCE BE-
TWEEN THE INDEPENDENTS AND ORGANIZED LABOR (REFTEL) FOR
A STRIKE WHICH WOULD PUT GREAT PRESSURE ON THE LARGE

COMPANIES. (ALPIZAR SAID HE HAS TOLD THE INDEPENDENTS THAT THIS WOULD BE EXCEEDINGLY DANGEROUS SINCE THEY WOULD BEGIN SOMETHING THEY COULD NOT CONTROL.)

12. WE ARE IMPRESSED THAT ALPIZAR INFORMED US IN ADVANCE OF THE PROPOSAL. HE SEEMS AWARE THAT THE PLAN COULD CREATE PROBLEMS IN GOCR-COMPANY AND IN GOCR-U.S. RELATIONS; WE THINK HE IS SINCERE IN WISHING TO AVOID THIS. NEVERTHELESS, THERE IS AN IMPLIED WARNING THAT OTHERS MIGHT RESORT TO IRRESPONSIBLE APPEALS TO PUBLIC

CONFIDENTIAL

PAGE 06 STATE 134424

PASSIONS AGAINST THE BIG FRUITCOMPANIES, IF SOMETHING CANNOT BE NEGOTIATED.

VAKY

UNQUOTE ROGERS

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